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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 002367

SIPDIS

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TAGS: [ENRG IS EG GOI EXTERNAL ECONOMY AND FINANCE LABOR AND COMMERCE](#)

SUBJECT: EGYPT/ISRAEL GAS DEAL TO BE SIGNED IN EARLY MAY

REF: 04 TEL AVIV 05593

Classified By: Economic Counselor William Weinstein for reasons 1.4 (B) and (D)

1. (C) Summary: Egypt and Israel appear to be coming closer to signing a gas deal that has been in the negotiations for years. The GOI says that the governments are ready to sign a memorandum of understanding (MOU) by early May. In addition, the two companies involved, Israel Electric Corporation and Eastern Mediterranean Gas (EMG), are currently clarifying the language on the tax status of EMG as the supplier. According to Merhav, the Israeli partner in EMG, both the MOU and the commercial contract will be signed before Israeli Independence Day on May 12. End summary.

Governments Ready to Sign

2. (C) Yaki Dayan, an advisor in Prime Minister Ariel Sharon's office, confirmed press reports to Charge d'Affaires on April 13 that the memorandum of understanding (MOU) for the gas deal between Israel and Egypt will be signed in early May. According to Dayan, despite some concerns about tax issues related to the deal, Foreign Minister Silvan Shalom's trip to Egypt resulted in an agreement with the GOE, and the MOU between the two governments will be signed by the first week of May. Press reports indicate that the Egyptian Oil Minister and Infrastructure Minister Binyamin Ben-Eliezer will sign for their respective governments. Hatim Mahmud Hassouba, Second Secretary at the Egyptian Embassy in Tel Aviv, also told economic officer that the MOU will be signed in approximately two weeks.

3. (C) Dr. Nimrod Novik (please protect), Senior Vice President of Merhav and partner in the Eastern Mediterranean Gas (EMG) consortium bringing gas to Israel, told econoff that Ben-Eliezer had wanted to sign the MOU next week in Cairo, but Egyptian President Hosni Mubarak is hosting African leaders at Sharm al-Shaykh and the timing does not work. According to Novik, Ben-Eliezer had wanted the MOU signed before a visit by Russian President Vladimir Putin on April 27 or 28 because Putin plans to discuss gas with the GOI and Ben-Eliezer wants "hard facts" before their meeting.

4. (C) The Egyptian majority partner in EMG, however, is resisting signing the MOU before the commercial contract is ready for fear of embarrassment in case the boards of either EMG or Israel Electric Corporation (IEC), the buyer, reject the commercial agreement. Novik said EMG will not reject the commercial contract, but the board of IEC may make things difficult because some on the board are of a "different sentiment." He mentioned that Ben-Eliezer is willing to make pitch to the board in person if needed.

Still to be Resolved

5. (C) Novik told econoff that negotiating teams for IEC and EMG are currently in Cairo wrapping up the text of the commercial agreement. The contract may be initialed today, and then it would go to the boards of IEC and EMG for signing. The boards have about two weeks to read the contract, one week to comment, and then at that point both should sign. Novik explained that there are two issues to resolve with the contract. One is a small technical matter between Israeli and Egyptian banks.

6. (C) The second issue with the contract relates back to the MOU. Currently, EMG is tax exempt and IEC has committed to reimburse EMG's taxes if at any point during the 20-year contract future Israeli governments reverse EMG's tax status. IEC, however, will not sign the commercial contract until either the language in the MOU is clarified or it receives a guarantee from the Israeli Tax Authority. Novik said that once IEC sees a copy of the MOU, the board should sign the commercial contract. Taking into account that IEC will not sign the contract until it sees the MOU, and that EMG does not want the MOU signed until the contract is ready, Novik predicted that both documents will be signed simultaneously, or at least on the same day, between the end of Passover and Israeli Independence Day on May 12.

7. (C) Hassouba also told econoff that the two parties had

agreed on the outstanding issue of the path of the pipeline from al-Arish to Ashkelon. He said the pipeline will be built 21.5 kilometers off the Gazan coast so it will not be in Palestinian territorial waters.

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